

SUMMER 2008

# Connect

WITH YOUR FINANCIAL FUTURE.



Credit card debt for an average American household is **\$8,400**.  
Source: Financial Planning Association

## Rev up Your Retirement Savings



**W**hy do so many people put off saving for retirement? Perhaps it's because saving feels like a sacrifice or because it's difficult to get motivated for a distant goal. Time can be your biggest ally in your retirement savings journey, so the earlier you start putting away money, the better off you may be. If your retirement planning is stuck in neutral, these four steps can help

you overcome your inertia and get on the road to a more secure retirement.

**Engage ignition.** Avoid making retirement planning more complicated than it is. Break down the process into manageable steps. First, enroll in your employer's retirement savings plan or another retirement savings vehicle. If you can save more, establish an IRA.

**Upgrade to automatic.** You eliminate the save/spend

debate when you contribute to your employer's retirement savings plan through payroll deductions. You also can set up automatic contributions to an IRA through electronic transfers from your bank. Increase your savings rate as your salary grows. If you earned a 4% raise this year, consider increasing your 403(b) salary deferral or your IRA contribution by 2%.

**Demolish debt.** Credit card debt can be an enormous drag on your ability to save for retirement. Plan to pay off your credit cards gradually, starting with the highest-interest balance. Each time you pay off a balance, direct what you were paying for that card to the next balance. Your reward? Freed up funds to go toward your savings.

**Avoid sticker shock.** Think big. Sure, brewing coffee might save an individual a few bucks, but what

if that person replaced his or her car every five years, rather than every four years? If a person were to invest the average monthly loan payment of \$479<sup>1</sup> in a hypothetical portfolio earning 7% a year, he or she could turn a year's worth of car payments into \$199,190 over a 35-year period.<sup>1</sup> Wait an additional two years to buy a new car and an individual could have \$331,823<sup>1</sup> for retirement.\*

Remember, sacrifices you make today could mean more lifestyle choices—a wide-open road—when you retire. ■

1. StrategicAdvisers Inc. and Kiplinger's

\*A hypothetical constant annual rate of return of 7% was used to demonstrate this concept. Your own investment returns may be more or less than this example. All investment returns have been adjusted for a 3% rate of inflation. Investment returns and inflation will vary. The 7% figure is not meant to demonstrate the return of any investment or asset class. This hypothetical example does not reflect the impact of taxes.

# Planning for Retirement on Your Own

**A**s a single person, it's up to you to determine how to save for retirement, but solo savers should take extra care with financial planning. Because you can't automatically rely on another salary, retirement plan, or caregiver as you age, consider following these financial strategies to help protect yourself:

- **Establish an emergency fund.**

Living on one salary underscores the importance of having savings to fall back on in the event of a job loss.

- **Plan for disability or illness.**

The cost of full-time nursing home care currently averages more than \$60,000 per year<sup>1</sup> and can run nearly twice that amount in some parts of the country. Consider long-term-care insurance to help protect against the chance that nursing care could drain your retirement savings.

- **Establish durable powers of attorney.** These documents authorize a trusted person—a close friend or a financial advisor—to make financial and medical decisions on your behalf, if you're unable to do so.

If you are newly divorced or widowed in retirement, you face a range of additional issues. To help you get on your feet financially:



- **Reevaluate your budget.** Track your spending for three to six months to determine how much income you need to live.

- **Proceed with caution.** Wait at least three months before making major decisions, such as how to allocate life insurance proceeds or cash you receive during divorce proceedings.

- **Revisit your legal documents.** Ensure that your will, durable powers of attorney, trusts, and other estate documents continue

to reflect your wishes. Also check the beneficiaries listed on all your financial accounts.

Being single in retirement may present unique challenges. However, some issues can be simpler. For example, you don't have to worry about anyone else's spending habits and may not need to coordinate as many different types of accounts and assets as a married couple. ■

1. Life and Health Insurance Foundation for Education, [www.life-line.org](http://www.life-line.org)

# Recession Talk

## Just what could a recession mean for you?

**A**re we staring a recession in the face? Some economists insist a recession will be averted by rate cuts and the economic stimulus package; others say we're in a recession already. The National Bureau of Economic Research (NBER)—a nonprofit group based in Cambridge, Mass., and the generally accepted arbiter of when U.S. recessions begin and end—has yet to declare a recession.

More important than when or if a recession has begun is the potential impact on your finances. Drawing on data from the last three recessions, the Center for Economic and Policy Research, a think tank based in Washington, D.C., forecasts that a recession this year would raise the national unemployment rate by 2.1–3.8%,<sup>1</sup> compared to the 4.6% unemployment rate in 2007.<sup>2</sup> A mild to moderate recession could reduce the median annual family income by just over \$2,000 (in constant 2006 dollars) by 2010.<sup>1</sup>

What can you do to help protect yourself? An uncertain economy always underscores the importance of setting up an emergency fund. You might also review your portfolio to ensure that your investments are well diversified and match your risk tolerance. Additionally, if the Fed is committed to continuing to lower the federal funds rate, you may benefit from lower mortgage rates if you're a new home buyer or

are able to refinance. However, you may have to stomach lower interest rates on money market funds and new long-term certificates of deposit.

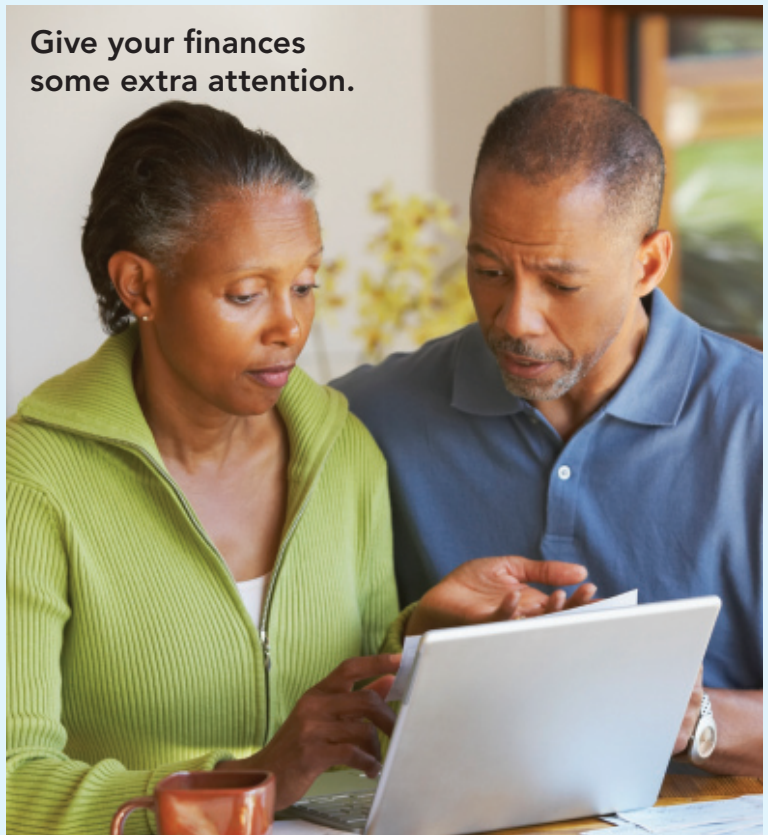
If the economy does enter a recession, the length of the downturn is also something to consider. According to the NBER, there have been 32 recessions since 1854, lasting an average of 17 months. However, since 1945, recessions have averaged just 10 months, and

the duration of the past two relatively mild recessions, in 1990–1991 and 2001, was just eight months. That's not a long time in the big picture, and a little extra attention to your finances could help you ride out the possibility of a recession. ■

1. "What We're In For: Projected Economic Impact of the Next Recession," [www.cepr.net](http://www.cepr.net)

2. U.S. Department of Labor Bureau of Labor Statistics

**Give your finances  
some extra attention.**



# Income Tax Rebates – Save or Spend?

**T**here's no such thing as a free lunch, but the government's \$168 billion stimulus package of personal tax rebates and business tax cuts is providing more than the cost of a sandwich to more than 130 million eligible households. Payments began in late April and will continue through July.

The last two digits of your Social Security number and how you choose to receive your refund (direct deposit or check) determine when you receive your payment. Individuals will receive a maximum of \$600, while taxpayers who file a joint return can expect up to \$1,200. Parents also will receive an additional \$300 for each qualifying child. Eligibility for the stimulus payment is subject to income limits; payments will be reduced for individuals earning \$75,000 or more and for married couples earning \$150,000 and up.

But more important than when you will receive a payment is what you do with it. When Americans

received rebates in 2001 and 2003, many spent that "free" money.<sup>1</sup> And spending helps get the economy moving, right?

But what about your long-term financial health? Labeling the package "anti-savings and anti-debt-reduction," Mark Johannessen, CFP, president of the Financial Planning Association (FPA), says there are three reasons Americans should consider saving their rebate: the average American household credit card debt is \$8,400; the national savings rate is -0.5 percent; and bankruptcies are on the increase.

Note that if investing \$600 at a growth rate of 7% over 10 years, the account could grow to a worth of \$1,180.<sup>2</sup> That's something to think about before hitting the mall. ■

1. [www.house.gov/jct/x-4-08.pdf](http://www.house.gov/jct/x-4-08.pdf)

2. [www.moneychimp.com/articles/finworks/fmfutval.htm](http://www.moneychimp.com/articles/finworks/fmfutval.htm)

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**Saving your tax rebate could help you in the long run.**

## Need Help?

If you need help planning for your financial future, contact Fidelity at **800-343-0860**, through your employer's toll-free number, or online at **[www.fidelity.com/atwork](http://www.fidelity.com/atwork)**.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

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